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Subject: *Military Personnel: Reserve Compensation Has Increased Significantly and Is Likely to Rise Further as DOD and VA Prepare for the Implementation of Enhanced Educational Benefits*

Compensation has been an important tool used by the military services to attract and retain qualified people since the Department of Defense (DOD) transitioned to an all-volunteer force in 1973. While the level of military compensation has increased for active duty, reserve, and guard servicemembers, the basic structure of military compensation has remained unchanged. DOD provides active duty personnel and reservists<sup>1</sup> with a compensation mix consisting of cash, such as pay and allowances; noncash benefits, such as education assistance and health care; and deferred compensation, such as retirement pensions and extended access to health care benefits.

In past reports, we have raised a number of concerns about the effectiveness of DOD's approach to compensation. For example, in our 2005 report on the challenges facing the United States in the 21st century, we emphasized the need for a baseline review of all major federal programs and policies, including military compensation, to ensure that they are efficiently and effectively meeting their objectives, particularly in light of concerns about the affordability and sustainability of federal spending.<sup>2</sup> In 2005 and 2007, we assessed the active duty and reserve compensation systems and found the cost to provide compensation was substantial and rising.<sup>3</sup> We also found that DOD's piecemeal approach to compensation involved increasing or making changes to compensation without completely understanding the impact that these changes might have on recruitment and retention.

As DOD increasingly relies on the reserve components to carry out its military operations domestically and abroad, DOD and Congress have taken steps to improve recruitment and retention by increasing compensation. One example involves expanding educational benefits for mobilized reservists. The recently enacted Post 9-11 Veterans Educational Assistance Act

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<sup>1</sup>For the purposes of this report, the terms reserve component, reserves, and reservists refer to the collective forces of the Army Reserve, the Army National Guard, the Navy Reserve, the Air Force Reserve, the Air National Guard, and the Marine Corps Reserve.

<sup>2</sup>GAO, *21<sup>st</sup> Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-352T](#) (Washington, D.C.: February 2005).

<sup>3</sup>GAO, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of its Military Compensation System*, [GAO-05-798](#) (Washington, D.C.: July 19, 2005) and *Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency Over Reserve and National Guard Compensation to Manage Significant Growth in Cost*, [GAO-07-828](#) (Washington, D.C.: June 20, 2007).

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(Post 9-11 VEAA),<sup>4</sup> which becomes effective on August 1, 2009, provides active and reserve component servicemembers who qualify for the maximum benefit with a more generous benefit than existing benefits by providing (1) full tuition and fees up to the amount of tuition and fees regularly charged to in-state students at the most expensive public institution in a given reservist's state, (2) a monthly stipend for living expenses, and (3) an annual stipend for books and required educational expenses.<sup>5</sup> In addition, the new Post 9-11 VEAA benefit allows eligible servicemembers to use educational benefits after discharge or release from active duty and authorizes the Secretary of Defense to give the service Secretaries authority to allow qualifying servicemembers to transfer unused educational benefits to spouses and dependents.

Section 535 of the National Defense Authorization Act for Fiscal Year 2008 (NDAA 2008)<sup>6</sup> directed the Secretary of Defense, in cooperation with the Secretary of Veterans Affairs, to submit a report to the congressional defense committees and the House and Senate Committees on Veterans Affairs, by September 1, 2008, on the feasibility and merits of transferring the administration of existing educational assistance programs available to reservists—the Montgomery GI Bill-Selected Reserves<sup>7</sup> (GI Bill-SR) and the Reserve Educational Assistance Program<sup>8</sup> (REAP)—from DOD to the Department of Veterans Affairs (VA). The act also required that we assess the report and report to Congress by November 1, 2008. DOD has not met its reporting deadline; however, should DOD submit a report to Congress on the transfer of administration, we will assess it as required by section 535 of the 2008 NDAA. DOD has attributed the delay in meeting its reporting deadline to a need to broaden the scope of its assessment to include the new Post 9-11 VEAA. Both the Senate and House Armed Services Committee expressed interest to us on issues related to reserve compensation, including the Post 9-11 VEAA, and the status of DOD's assessment on the transfer of administration of educational assistance programs from DOD to VA. As agreed with committee offices, this report discusses (1) the trends in total reservists' compensation and the projected cost of the Post 9-11 VEAA and (2) the progress that DOD and VA have made in assessing the merits and feasibility of transferring the administration for existing educational benefits from DOD to VA and the steps taken to prepare for the implementation of the Post 9-11 VEAA.

For the first objective, we interviewed DOD officials and analyzed cost documents on compensation for reservists to identify trends in compensation. We selected fiscal years 2001 through 2007 (the most recent year for which data were available at the time we conducted our work) to build on our prior work on reserve compensation.<sup>9</sup> Our analyses included part-time and full-time reservists, but excluded reservists that were mobilized since they are paid

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<sup>4</sup>38 U.S.C. §§ 3301-3324.

<sup>5</sup>The amount of these benefits may be less for certain servicemembers who only qualify for a percentage of the benefit based on a shorter time in service.

<sup>6</sup>Pub. L. No. 110-181, § 535 (2008).

<sup>7</sup>10 U.S.C. §§16131-16137.

<sup>8</sup>10 U.S.C. §§16161-16166.

<sup>9</sup>Our prior work on reserve compensation captured data from fiscal years 2000 through 2006, *Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency Over Reserve and National Guard Compensation to Manage Significant Growth in Cost*, GAO-07-828 (Washington, D.C.: June 20, 2007).

out of the active components' budget.<sup>10</sup> We analyzed trends in total compensation, specifically on noncash and deferred benefits, based on cost estimates provided by DOD, the Office of the Health Affairs, and the Office of the Actuary, as well as cost information from DOD's Budget Justification books. To ensure that the cost data were sufficiently reliable for our analyses, we interviewed agency officials knowledgeable about the data sets and reviewed related documentation. We determined that all the data sets that we used were sufficiently reliable for the purposes of our analyses. We also interviewed Congressional Budget Office (CBO) and VA officials to obtain and analyze cost projections on the Post 9-11 VEAA. For the second objective, we interviewed DOD and VA officials and examined documents to determine the progress that DOD and VA have made in assessing the merits and feasibility of transferring the administration for existing educational benefits from DOD to VA. We interviewed officials and reviewed documents from DOD and VA to determine what actions have been taken to facilitate the implementation of the Post 9-11 VEAA.

We conducted this performance audit from September 2008 through June 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. (See app. I for expanded objectives, scope, and methodology.)

## Summary

We estimate that total federal compensation for reservists grew by about 25 percent, from about \$18.5 billion in fiscal year 2001 to nearly \$23.1 billion in fiscal year 2007 in constant fiscal year 2009 dollars.<sup>11</sup> Per capita compensation for part-time reservists, who comprise about 91 percent of the reserve force, increased nearly 52 percent, from \$14,400 in fiscal year 2001 to \$22,000 in fiscal year 2007.<sup>12</sup> Per capita compensation for full-time reservists increased about 13 percent, from \$107,000 in fiscal year 2001 to \$121,000 in fiscal year 2007. Of the three cost areas that comprise compensation—cash, noncash, and deferred—deferred compensation costs, such as retiree health care and pensions, grew the fastest, increasing by nearly 28 percent. Cash compensation costs, such as pay and bonuses, grew by nearly 24 percent, while noncash benefits, such as health care and education, increased by about 21 percent. Further, the growth in reservists' compensation is expected to increase more with

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<sup>10</sup>Part-time reservists are required to maintain readiness through scheduled drilling and training, usually one weekend a month and 2 weeks a year. Full-time reservists serve as full-time administration and support staff to the various reserve components.

<sup>11</sup>Unless noted, all costs have been adjusted for inflation and are presented in fiscal year 2009 constant dollars. To calculate the costs in constant dollars, we used an official DOD source, the National Defense Budget Estimates, published by the Office of the Under Secretary of Defense (Comptroller) and the Bureau of Economic Analysis for military pay deflators or price indices. All total compensation costs presented are estimates based on our analysis of the best available data. (See app. I for methodology.)

<sup>12</sup>In order to calculate per capita compensation for part-time reservists, we divided total spending on part-time compensation by a normalized strength denominator. This denominator was calculated for each fiscal year by subtracting the average number of mobilizations from the average strength of the various pay groups. Mobilization data reported by DOD may include some non-part-time and non-Selected Reserve personnel, which would mean that the actual normalized strength would be slightly higher than our calculations, resulting in lower per capita compensation rates. (See app. I for methodology.)

the implementation of the Post 9-11 VEAA beginning in August 2009 because it will provide more generous education benefits than existing benefits to qualifying servicemembers and veterans of the armed forces. VA estimates that the net cost of the Post 9-11 VEAA will be nearly \$78.1 billion from fiscal years 2009 to 2018, of which \$12.3 billion will fund benefits for reservists and their eligible family members. Congress appropriated \$746 million more than the VA's fiscal year 2009 budget request to reflect the partial-year cost of the Post 9-11 VEAA. According to a VA official, the Post 9-11 VEAA will require \$2.1 billion in obligations in fiscal year 2009. Of the VA requested appropriation, \$7.1 billion funds the Post 9-11 VEAA program in fiscal year 2010.

As of June 2009, DOD had not completed the congressionally mandated report to Congress on the feasibility and merits of transferring the administration of reserve education benefit programs because it has been preparing to implement the Post 9-11 VEAA benefit by the effective date of August 1, 2009, according to DOD officials. However, DOD and VA officials told us that as part of their initial assessment, they have concluded that little would change should a transfer in administration occur. For example, DOD would continue to retain responsibility for submitting eligibility data to VA and verifying VA's eligibility determinations, and VA would continue to process and execute payments. One issue that may require further consideration is the effect that a transfer of funding control from DOD to VA might have on program costs. If funding control were to be transferred, visibility over the total program costs may be limited because VA currently does not recognize future program costs for its education benefit programs. However, VA officials told us that it could develop this capability if required should a transfer of administration occur. Both agencies have taken a number of steps to prepare for the implementation of the Post 9-11 VEAA. These include developing implementing policy, developing information technology, establishing requirements for transferring benefits, and drafting legislative proposals for technical fixes to the sections of the law related to eligibility of National Guard members responding to a national emergency on behalf of the state and increased benefits for servicemembers with critical skills or specialties in occupations for which there is a critical shortage of personnel. DOD and VA provided oral comments on a draft of this report. Both agencies generally concurred with the findings and conclusions. VA also provided technical comments and we incorporated those changes where appropriate.

## **Background**

The term Reserve Components is used to refer collectively to the Reserve Components of the armed forces, which include the Army National Guard of the United States, the Navy Reserve, the Air National Guard of the United States, the Air Force Reserve, the Army Reserve, and the Marine Corps Reserve.<sup>13</sup> The purpose of the Reserve Components is to provide trained units and qualified persons available for active duty in the armed forces in time of war or national emergency, and at such other times as the national security may require, to fill the needs of the armed forces whenever more units and persons are needed than are in the regular components. In addition to serving as a reserve for the armed forces of the United States, members of the Army National Guard and the Air National Guard may also be called up by the states to carry out various missions including responding to domestic emergencies such as natural disasters or civil disorder.

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<sup>13</sup>10 U.S.C. §10101. For purposes of this analysis, we did not include the Coast Guard Reserve as one of the Reserve Components.

Following the Cold War period, the role of the reserves changed from a strategic force to an operational force with reserve units more integrated into deployment operations. DOD has increasingly relied on mobilized reservists since the first Gulf War for military operations in Haiti, Bosnia, Southwest Asia, and Kosovo from 1994 to 2001. After the terrorist attacks of September 11, 2001, DOD has depended more heavily on the reserves for overseas operations in Iraq and Afghanistan as well as homeland missions. For instance, reservists have been activated by the federal government six times since 1990 compared to only four times from 1945 to 1989.

Traditionally, educational benefits have been used to encourage reservists to join the military by providing educational assistance to retain personnel because the benefits could only be used while individuals remained in the military. DOD manages and budgets for the existing educational assistance programs available to members of the reserve components. These programs are used not only to encourage recruitment and retention, but also to assist servicemembers in readjusting to civilian life after military service. In contrast, VA manages the educational assistance programs available to veterans of active duty service. Over time, the management of these benefits under separate departments has led to a disparity in benefits between reservists and active duty servicemembers. Following the September 11, 2001, terrorist attacks, the educational benefits for active duty members increased more rapidly than the benefits for reserve members at a time when more reservists were activated for wartime purposes. To address this disparity, Congress recently took steps to expand the educational benefits for mobilized reservists.

In general, reservists are currently entitled to one of the following educational assistance benefits if they meet certain eligibility requirements:<sup>14</sup>

Montgomery GI Bill-Selected Reserves (GI Bill-SR). The GI Bill-SR is an educational benefit available to reservists who, since June 30, 1985, have entered into a 6-year service agreement, completed the requirements of a secondary school diploma or equivalency certification before applying for the benefit, and completed the initial period of active duty for required training. Reservists must typically remain in the reserves in order to continue receiving this benefit.

Reserve Educational Assistance Program (REAP). The REAP was established to provide educational benefits for reservists ordered to active service in response to a war or national emergency declared by the President or Congress in recognition of the sacrifices that those members make in answering the call to duty. Reservists serving on active duty in support of a contingency operation for at least 90 consecutive days on or after September 11, 2001, are eligible for the program, as well as members of the National Guard performing certain duty under Title 32 for 90 consecutive days or more when authorized by the President or the Secretary of Defense.<sup>15</sup> The amount of educational benefits under the REAP is on a sliding scale ranging up to a maximum of 36 months and is determined based on the length of time reservists served on active duty. In fiscal year 2008, the REAP was amended to allow

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<sup>14</sup>Subject to eligibility requirements, reservists are also entitled to other educational assistance programs that were not created solely for reserve members, such as the Montgomery GI Bill for the Active Duty.

<sup>15</sup>The benefit is available to members of the National Guard who perform full-time National Guard duty under 32 U.S.C. § 502(f) for 90 consecutive days or more when authorized by the President or Secretary of Defense for the purpose of responding to a national emergency declared by the President and supported by federal funds.

reservists to (1) use educational benefits 10 years after separating from the component<sup>16</sup> and (2) allow the concerned Service Secretary to permit the transfer of unused educational benefits to spouses and dependents at the Secretary's sole discretion.<sup>17</sup>

Reservists will also be entitled to the Post 9-11 VEAA when it becomes effective on August 1, 2009. Congress established the Post 9-11 VEAA on June 30, 2008,<sup>18</sup> providing increased educational benefits to qualifying military servicemembers and veterans who have served on active duty for wartime or national emergencies since September 11, 2001. Under the Post 9-11 VEAA, reservists qualifying for the maximum benefit may receive an amount equal to the established charges for the individual's program of education, not to exceed the maximum rate of in-state tuition at the most expensive institution of higher learning in the state in which the reservist is enrolled; a monthly housing allowance equal to the monthly amount of the Basic Allowance for Housing under Title 37 for a member with dependents in pay grade E-5 in the area of the school; and stipends for books and supplies.<sup>19</sup> Servicemembers and veterans are required to serve 90 days of active duty beginning on or after September 11, 2001, to earn education benefits under the Post 9-11 VEAA. Similar to the REAP, the Post 9-11 VEAA provides a post-separation provision enabling servicemembers and veterans to use and to remain eligible to use educational benefits until the end of the 15-year period following discharge or release from active duty, with certain exceptions, and it allows the Secretary of Defense to authorize the Service Secretaries to allow the transfer of unused educational benefits to spouses and dependents.

#### **Cost to Compensate Reserve Personnel Has Significantly Increased Since Fiscal Year 2001 and Estimates Indicate the Post 9-11 VEAA Will Likely Increase Compensation**

From fiscal years 2001 through 2007, total federal compensation for reservists grew by about 25 percent, from about \$18.5 billion in fiscal year 2001 to nearly \$23.1 billion in fiscal year 2007. Fig. 1 shows the increase in the reserve components' compensation spending from fiscal years 2001 through 2007.

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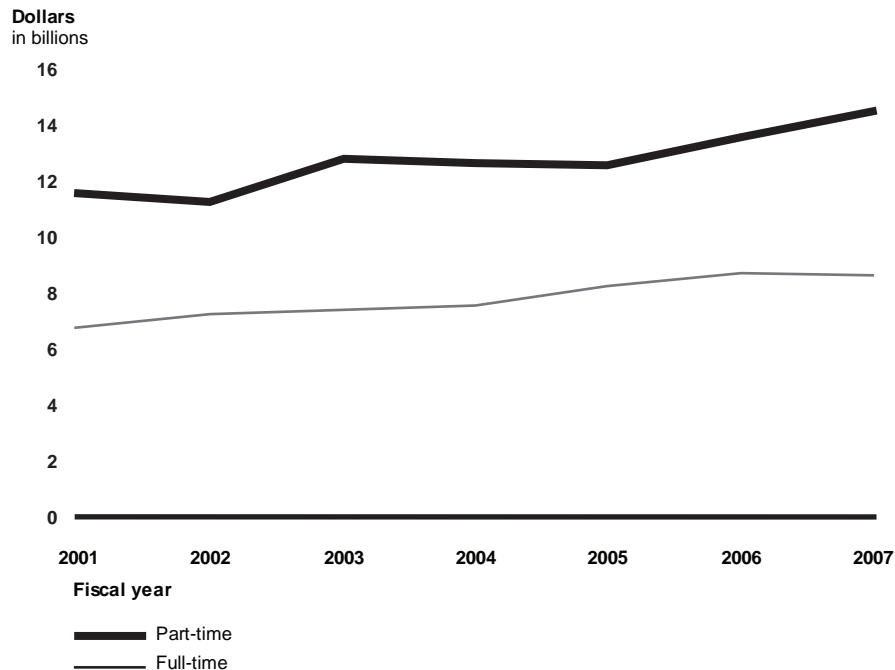
<sup>16</sup>National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 530 (2008).

<sup>17</sup>Supplemental Appropriations Act, 2008, Pub. L. No. 110-252, §5003 (2008). Codified at 38 U.S.C. §§ 3301- 3324.

<sup>18</sup>Pub. L. No. 110-252, § 5003 (2008).

<sup>19</sup>As under the REAP, the exact amount reservists receive is determined by the length of service. The maximum basic benefit is earned after serving an aggregate of 36 months of active duty service or after 30 days of continuous service for those individuals who were discharged for a service-connected disability. Individuals serving at least 90 days but less than 36 months of aggregate active duty service will be eligible for a percentage of the maximum benefit.

**Figure 1: Trends in Reservists' Total Compensation, Fiscal Year 2001 through Fiscal Year 2007**



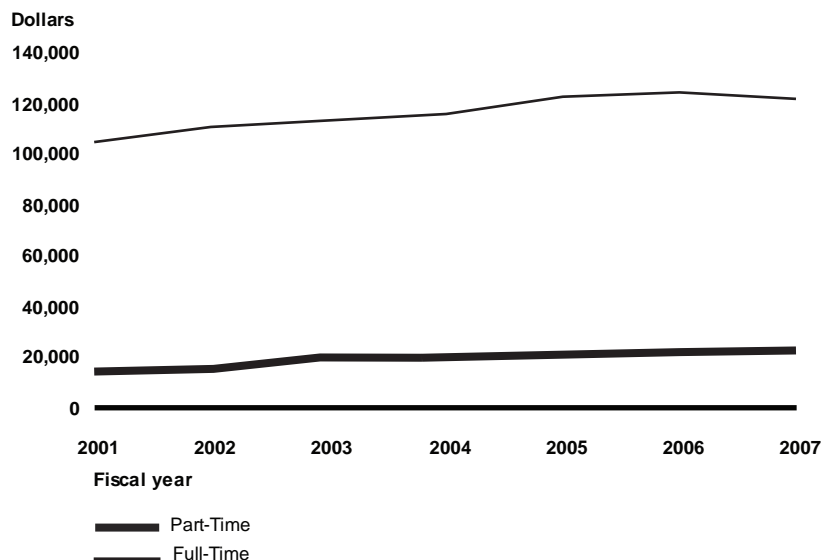
Source: GAO analysis of DOD data.

Note: Data are expressed in constant fiscal year 2009 dollars, fiscal years 2001 through 2007 (most recent year for which data were available at the time we conducted our work).

Per capita compensation for part-time reservists, who comprise about 91 percent of the reserve force, increased by about 52 percent, rising from about \$14,400 in fiscal year 2001 to about \$22,000 in fiscal year 2007. Compensation for full-time reservists increased about 13 percent, rising from about \$107,000 in fiscal year 2001 to about \$121,000 in fiscal year 2007. Fig. 2 shows the increase in the reserve components' per capita compensation spending from fiscal years 2001 through 2007.



**Figure 2: Trends in Per Capita Compensation for Reservists, Fiscal Year 2001 through Fiscal Year 2007**



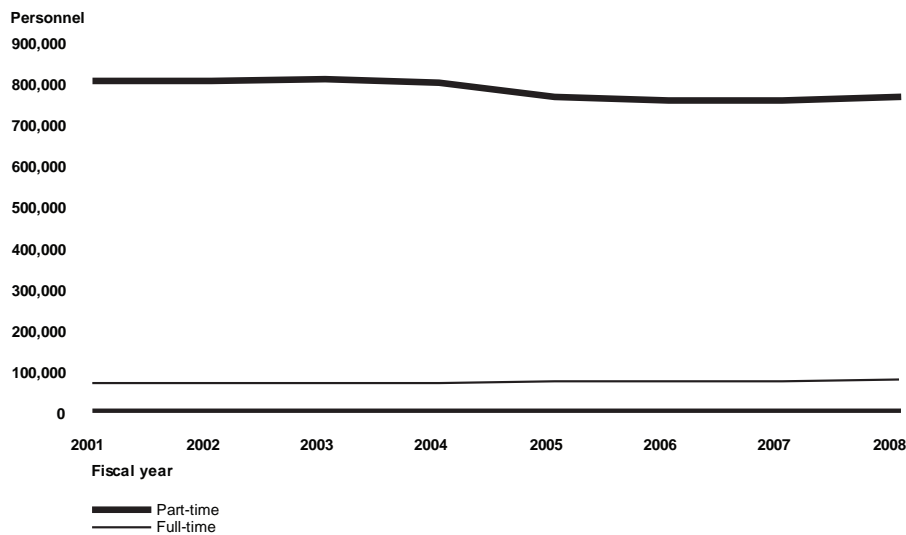
Source: GAO analysis of DOD data.

Note: Data are expressed in constant fiscal year 2009 dollars, fiscal years 2001 through 2007 (most recent year for which data were available at the time we conducted our work).

While compensation costs increased from fiscal years 2001 to 2007 for both part-time and full-time reservists, from fiscal years 2001 to 2008, the average number of part-time reservists actually declined by about 4.6 percent (from 798,494 to 761,864),<sup>20</sup> while the number of full-time reservists increased by about 10.5 percent (from 64,787 to 71,585). (See fig. 3.) However, the average number of part-time reservists increased slightly in fiscal year 2008 over fiscal year 2007.

<sup>20</sup>We included pay groups A, B, F, and P in our calculations. Pay Group A includes personnel who are authorized a minimum of 48 drills of inactive duty training (IDT) and at least 14 days of annual training (AT). Pay Group B includes personnel who are designated as Individual Mobilization Augmentees and train with the organization to which they are assigned. They are annually authorized up to 48 drills of IDT and an AT period from 12 to 14 days. Pay groups F and P include nonprior service enlistees engaged in initial training.

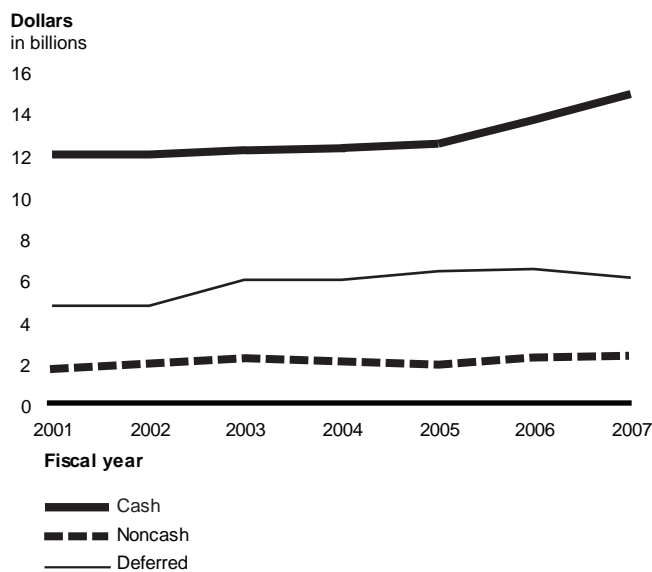
**Figure 3: Average Strength of Part-time and Full-time Reservists, Fiscal Year 2001 through Fiscal Year 2008**



Source: GAO analysis of data from Military Personnel Budget Justification Books for Fiscal Years 2001 through 2008.

In terms of share of total compensation, deferred compensation grew the fastest from fiscal years 2001 to 2007, followed by cash and noncash compensation. (See fig. 4.) Growth rates were also different between full-time and part-time reservists.

**Figure 4: Allocation of Reserve Components' Compensation to Cash, Noncash, and Deferred Categories, Fiscal Year 2001 through Fiscal Year 2007**



Source: GAO analysis of DOD data.

Note: Data are expressed in constant fiscal year 2009 dollars, fiscal years 2001 through 2007 (most recent year for which data were available at the time we conducted our work).

From fiscal years 2001 through 2007, we noted these trends in compensation and benefits:

- Deferred compensation grew by nearly 28 percent. Deferred compensation for part-time reservists grew by almost 38 percent, while deferred compensation for full-time reservists increased by only 11 percent. The growth in deferred compensation for part-time reservists was primarily due to increases in part-time retirement pay accrual and retiree health care benefits, which have grown by 34 and 35 percent, respectively.<sup>21</sup> Since fiscal year 2001, deferred benefits have represented about 26 percent of total compensation costs.
- Cash compensation increased about 24 percent. Cash compensation for part-time reservists grew by about 21 percent, compared to a 30 percent growth for full-time reservists. These increases were mainly due to increases in special pay categories for part-time reservists and basic pay for full-time reservists. Among both part-time and full-time reservists, the reserve incentive programs, which include various bonuses, increased the fastest. Among full-time reservists, the reserve incentive programs increased 337 percent, from about \$2 million to about \$10 million. Among part-time reservists, the reserve incentive programs increased 457 percent, from about \$226 million to nearly \$1.3 billion.<sup>22</sup> Cash has represented about 64 percent of total compensation since fiscal year 2001.
- Noncash benefits increased nearly 21 percent. For part-time reservists, education benefits grew the fastest, rising by about 159 percent—from nearly \$218 million to about \$566 million.<sup>23</sup> Among full-time reservists, most benefit categories grew, including health care, which increased by about 18 percent—from \$469 million to \$552 million. Noncash benefits have represented about 10 percent of total compensation since fiscal year 2001.

The growth in reservists' compensation is expected to accelerate with the advent of the Post 9-11 VEAA benefits. It is anticipated that more individuals will choose this benefit over current educational programs because the benefit is more generous than existing education benefits and can be used both during and after separation from the reserves. For example, reservists typically will be eligible to use their education benefits up to 15 years after discharge or release from active duty service under the Post 9-11 VEAA, compared to 10 years under the REAP. Furthermore, the law allows the authorization of transfer of unused benefits to spouses and dependents. As a result, the Post 9-11 VEAA benefit will increase both cash and noncash compensation as reservists use their benefits during the course of their reserve service; similarly, deferred costs will also rise as individuals use their education benefits after separation.

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<sup>21</sup>For the purposes of this analysis, we used the per capita normal costs for postretirement medical benefits, including costs for both the Medicare-eligible and non-Medicare-eligible populations.

<sup>22</sup>For the purposes of this analysis, education spending within the reserve incentive programs is counted as noncash spending. The reported totals include only cash pays (payments) within the reserve incentive programs.

<sup>23</sup>For the purposes of this analysis, education spending includes components' payments to VA-administered programs, such as the GI Bill-SR and the REAP, and noncash education benefits, such as tuition assistance and student loan repayments, within the reserve incentive programs.

VA developed an estimate of the cost of providing benefits from fiscal years 2009 through 2018 and found that the gross cost of providing benefits will be roughly \$99.7 billion in nominal dollars for both active personnel and reservists.<sup>24</sup> The VA estimate takes into account potential cost savings of \$20.8 billion from other VA education programs that could be used to offset the Post 9-11 VEAA total program cost of \$99.7 billion, reducing the obligation of the new benefit to \$78.1 billion.<sup>25</sup> According to VA's estimate, approximately \$12.3 billion (about 12 percent) of the \$99.7 billion total cost is for education benefits for part-time reservists and their families from fiscal years 2009 through 2018.<sup>26</sup> Of the \$12.3 billion, approximately \$10.4 billion is expected to fund benefits for part-time reservists and \$1.9 billion is expected to fund benefits for eligible family members.

Since the Post 9-11 VEAA benefit does not become effective until August 2009, VA's cost estimate is based on assumptions and historical data on other education programs provided by DOD and VA. In developing the estimate, DOD and VA assumed that

- seventy percent of current participants in the REAP program since September 2001 will likely elect to use an average of 18 months of benefits under the Post 9-11 VEAA,
- since the housing allowance provided by the program is only available to students attending classes at more than the half-time rate, this incentive will increase the percentage of participants attending at least half-time from 74.3 percent of current REAP participants to 83 percent under the Post 9-11 VEAA,
- tuition will increase annually at an average of 6.75 percent, based on information provided by VA, and
- since reservists may elect to transfer unused portions of their benefits to spouses or dependents, the participation rate and the cost of the program will increase because 58 percent of reservists have a dependent, and of those, 60 percent will elect to transfer an average of 18 months of benefits to an eligible family member at a cost of about \$1.9 billion from fiscal year 2010 through fiscal year 2018.<sup>27</sup>

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<sup>24</sup>This figure represents the total cost of the benefit that was created by the Post 9-11 VEAA. The Post 9-11 VEAA also contains associated costs, including an increase in the value of the Montgomery GI Bill, the refund of the Montgomery GI Bill contribution reservists receive when they exhaust their benefits, the loss of proprietary receipts to the Treasury due to the lack of a buy-in cost for participants under Montgomery GI Bill for the Active Duty, and the cost of transferability of GI Bill-SR benefits to spouses and dependents. The total cost of these elements is about \$2.9 billion.

<sup>25</sup>VA officials said that many participants in a number of current benefit programs managed by VA will be eligible for benefits under the Post 9-11 VEAA and VA's cost estimate assumes that most individuals will elect to convert to the new benefit. VA estimates that DOD will save about \$1.7 billion over a 10-year period as REAP participants are expected to transfer to the more generous Post 9-11 program. This \$1.7 billion savings assumes that all REAP participants will elect to transfer to the Post 9-11 benefit and does not include the rate increase authorized by the Post 9-11 VEAA.

<sup>26</sup>Full-time reservists have historically had access to the same benefits as members of the active duty components. The VA estimate provides the cost of part-time reservists, and does not differentiate between full-time reservists and active duty members and veterans. Therefore, the cost of full-time reservists' benefits for the Post 9-11 VEAA is unknown.

<sup>27</sup>This \$1.9 billion cost is included in the \$12.3 billion total cost for reservists' benefits under the Post 9-11 VEAA discussed above.

Acknowledging that a more accurate method is needed to develop cost estimates for the Post 9-11 VEAA benefit, VA officials stated that VA has established a working group to assess the modeling changes necessary to forecast total obligations, appropriations requests, and outlays for VA's education account, incorporating the new Post 9-11 VEAA. Members of the working group include VA, CBO, the Office of Management and Budget, and the DOD Office of the Actuary.

Absent a more sensitive model, according to a VA budget official, the CBO estimate<sup>28</sup> developed in May 2008 was the basis for VA's fiscal year 2009 appropriation. According to CBO's estimate, the Post 9-11 VEAA benefit will require about \$51.8 billion in expenditures from fiscal years 2008 through 2018, with \$680 million required in fiscal year 2009.<sup>29</sup> As a result, Congress increased VA's appropriation by \$746 million over its fiscal year 2009 budget request to reflect the partial-year cost of the Post 9-11 VEAA. However, VA's fiscal year 2010 budget request estimates the Post 9-11 VEAA will require \$2.1 billion in obligations in fiscal year 2009. Of VA's requested appropriation, \$7.1 billion funds the Post 9-11 VEAA program in fiscal year 2010.<sup>30</sup>

### **DOD and VA Have Not Completed an Assessment of Transferring Administration of Existing Educational Benefits from DOD to VA, but Have Taken Steps to Prepare to Implement the Post 9-11 VEAA**

As of June 2009, DOD had not completed the congressionally mandated report to Congress due September 1, 2008, on the feasibility and merits of transferring the administration for the GI Bill-SR and the REAP from DOD to VA, according to DOD officials. Although DOD and VA officials told us that they have begun to consider issues related to a transfer of reservists' educational benefit programs from DOD to VA, officials explained that they had not completed the report because both agencies have been preparing to implement the Post 9-11 VEAA benefit by the effective date of August 1, 2009. According to DOD officials, the scope of their assessment will have to be broadened to include the Post 9-11 VEAA and, therefore, DOD is in the process of reexamining how it will address the mandate. Although officials told us that they have not determined when they expect to complete the report, they stated they will be reengaging with VA in the near future and will likely resume the assessment of the transfer after the implementation of the Post 9-11 VEAA. Nevertheless, according to DOD and VA officials with whom we spoke, a transfer of administration of reservists' educational benefits from DOD to VA would not be disruptive because DOD would retain responsibility for inputting eligibility data and verifying VA's eligibility determinations, and VA would continue to process and execute payments. DOD and VA officials agreed that the only likely change would be that funding control for these programs would shift to VA.

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<sup>28</sup>The CBO estimate was not adjusted for inflationary purposes.

<sup>29</sup>CBO officials stated that the estimate was based on factors that have changed, and it would be different today if current assumptions were used. For example, the Post 9-11 VEAA was enacted into law in June 2008 and contains some provisions, such as the ability to transfer benefits to dependents, which the bill on which the estimate was based did not. In addition, CBO considered economic variables that have changed since the Post 9-11 VEAA was enacted, including unemployment rates.

<sup>30</sup>The total fiscal year 2010 appropriation request for VA's Readjustment Benefit Account is about \$9.1 billion.

Although agency officials stated that little would change should a transfer in administration occur, one issue that would have to be more fully considered is the effect that a transfer of funding control would have on the recognition of future program costs. Transferring control of the funds for reserve education benefits from DOD to VA could limit visibility over the total program costs since VA currently does not capture future costs. Instead, VA recognizes costs on a pay-as-you-go basis. In a previous report, we noted that to produce reliable estimates of costs and resources, agency management should consider both the short-term and long-term implications of its program and policy decisions.<sup>31</sup> An actuarial-based accounting system that considers the future costs of programs when making funding decisions, such as the one used by DOD, allows an agency to recognize up front the present value of future benefits. For example, under the DOD Education Benefits Fund, DOD is required to calculate the present value of future benefits that are payable to beneficiaries for the next fiscal year.<sup>32</sup> While DOD uses this type of accounting system, VA actuaries told us that it has not developed a similar mechanism for calculating future liabilities because a transfer of administration has not occurred. Should a transfer occur, VA told us that it could develop the capability to construct an actuarial model to estimate future liabilities, but it would need additional resources to hire staff, and it could take up to a year to complete the actuarial model.

Both DOD and VA have taken steps to prepare for the August 2009 implementation of the Post 9-11 VEAA. As of May 2009, the agencies were developing implementing policy, developing information technology, establishing requirements for transferring benefits, and drafting legislative proposals for technical fixes to sections of the law related to eligibility of National Guard members responding to a national emergency on behalf of the state and increased benefits for servicemembers with critical skills or specialties in occupations for which there is a critical shortage of personnel.

DOD is currently working on the following.

- *DOD is developing implementing policy:* DOD plans to issue a memorandum in the summer of 2009 to establish implementing policy for the Post 9-11 VEAA benefit. A working group was formed in the summer of 2008 to collaborate on issues related to implementing the Post 9-11 VEAA that could affect the military services, according to the working group chair.<sup>33</sup> The focus of the working group was to develop this memorandum to provide guidance for increased benefits to servicemembers with critical skills or specialties in occupations for which there is a critical shortage of personnel and rules for the transfer of unused Post 9-11 VEAA benefits to dependents.

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<sup>31</sup>GAO, *Results-Oriented Budget Practices in Federal Agencies*, GAO-01-1084SP (Washington, D.C.: August 2001).

<sup>32</sup>The Department of Defense Education Benefits Fund was established by the National Defense Authorization Act of Fiscal Year 1985, and is codified at 10 U.S.C. § 2006. Amounts that DOD pays into the Department of Defense Education Benefits Fund are paid from appropriations available for the pay of members of the armed forces. Under this fund, which is used to accumulate funds to finance DOD education liabilities on an actuarially sound basis, DOD is required to calculate the present value of future benefits that are payable to beneficiaries for the next fiscal year. By law, these amounts are paid into the fund by DOD and transferred to VA to pay educational benefits to servicemembers.

<sup>33</sup>DOD's working groups were composed of representatives from DOD, the Defense Manpower Data Center, and VA representatives.

- *DOD is developing information technology:* According to DOD officials, DOD is developing a Web interface to allow servicemembers to request to transfer the Post 9-11 VEAA benefits to their dependents. For example, servicemembers will be able to securely log onto the system to designate which of their dependents they wish to transfer their benefits to, how much, and when. After the services verify eligibility, the data will then be transmitted to VA. DOD will identify and incorporate new data elements into its information technology systems for capturing periods of service. These data will be shared with VA to facilitate its eligibility determinations for Post 9-11 VEAA payments. DOD expects to implement the system before August 1, 2009.
- *DOD has developed rules for transferability requirements:* DOD has developed proposed rules which will apply when servicemembers request to transfer the Post 9-11 VEAA benefit to their dependents. According to the proposed rules, transferability will be limited to servicemembers who are in the Armed Forces on or after August 1, 2009, have served at least 6 years in the Armed Forces, and agree to serve an additional 4 years in the Armed Forces. The rules also contain exceptions for those servicemembers at or near retirement, for whom the amount of additional service requirement may be reduced or waived depending upon the date of retirement eligibility.
- *DOD is addressing a technical, legislative fix to the sections of the law related to eligibility of National Guard members responding to a national emergency on behalf of the state:* To avoid degradation in benefits or inequities among servicemembers, DOD is drafting a legislative proposal to make a technical fix to the law to include National Guard members who respond to a national disaster on behalf of a state, which it will submit in the next legislative cycle in 2011. According to data from the Army National Guard and Air National Guard, a total of 75,098 members in the Army National Guard and 2,460 members in the Air National Guard will not be entitled to the Post 9-11 VEAA when it becomes effective August 1, 2009, under the current legislation because they do not fall within the definition of active duty status when serving under orders to respond to a national emergency for a state.
- *DOD is developing a legislative proposal addressing a technical fix to the sections of the law related to the use of increased benefits for servicemembers with critical skills or specialties:* The Post 9-11 VEAA working group chair told us that DOD plans to develop, by 2011, a legislative proposal to make a technical fix to the sections of the law related to the use of increased benefits by servicemembers with critical skills or specialties for occupations in which there is a critical shortage of personnel.<sup>34</sup>

VA is currently working on the following.

- *VA issued a regulation to guide implementation:* On March 31, 2009, VA published a regulation to implement the Post 9-11 VEAA for servicemembers who served after September 10, 2001.<sup>35</sup> Under the regulation, VA established rules for eligibility, entitlement, transfer of entitlement to dependents, approved programs of education and courses, maximum amounts and beginning dates for payments, and payment rates, among other things.

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<sup>34</sup>Pub. L. No. 110-252, § 3316 (2008).

<sup>35</sup>38 C.F.R. Part 21 (2009).

- *VA is developing an interim information technology system:* VA is developing a temporary, interim information technology system to process and execute payments for the Post 9-11 VEAA benefits by August 1, 2009. This system was also designed to provide VA a means to accept applications beginning on May 1, 2009, through its Veterans Online Applications (VONAPP) system for benefits on VA's Web site. However, when users began to upload applications to the system on May 1, 2009, it responded slowly and timed out. Officials from VA's Office of Information and Technology (OIT) told us that the failures were caused by an insufficient number of servers to handle the unanticipated increase in the volume of applications typically received for compensation, education, and rehabilitation benefits. VA typically receives 300 benefit applications a day, but on May 1, 2009, VA received 2,500 concurrent applications between 12 p.m. and 8 p.m. According to officials, the disruption was minimal and VA's OIT resolved the issues by adding additional servers, making software and hardware modifications, and monitoring and analyzing usage patterns, among other things. Officials also stated that they do not expect that the disruption will delay the processing and payment of the Post 9-11 benefit to servicemembers on August 1, 2009. According to VA officials, the department will also start accepting enrollment certifications from schools for education benefit claims for the Post 9-11 VEAA program and will begin processing claims for payment on July 6, 2009. VA will hold the processed claims until August 1, 2009, when they will be released to the United States Treasury. The Treasury will release the first payments on August 3, 2009.

The department estimated that completion of an information technology system for eligibility determinations, award processing, and payment of the new benefit would take 24 to 36 months. The law authorizing the Post 9-11 VEAA program set August 1, 2009 as the effective date for the program, which is approximately 13 months after the law was enacted. To have a mechanism in place by August 1, 2009, the short-term solution consists of some modifications to existing systems. During the short term, processing of claims will require significantly more manual steps and data entry than is required under existing benefit programs. To support the additional manual processing, VA hired 530 new full-time employees. VA will hire additional staff and implement its contingency plan if the system fails to generate automated recurring payments. However, VA's Office of Inspector General cautioned that VA may have underestimated the number of staff it will need and may lack the internal controls necessary for manually generating monthly checks.<sup>36</sup> VA anticipates that the long-term solution will be complete in December 2010.

### **Agency Comments and Our Evaluation**

DOD and VA provided oral comments on a draft of this report. Both agencies generally concurred with the findings and conclusions. DOD noted that it looks forward to the implementation of the Post 9-11 VEAA and further assessment of the reserve component educational assistance programs in light of the additional benefits afforded by the Post 9-11 VEAA. The department also said that it will continue to partner with VA to ensure the best programs and processes are in place to serve the reserve components. VA also provided technical comments and we incorporated those changes where appropriate.

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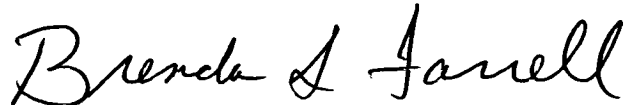
<sup>36</sup>Office of Inspector General, Department of Veterans Affairs, Statement before the Subcommittee on Military Construction, Veterans Affairs, and Related Agencies Committee on Appropriations, United States House of Representatives (Mar. 12, 2009).



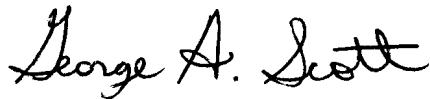
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We are sending copies of this report to the Secretary of Defense, the Secretary of Veterans Affairs, and appropriate congressional committees. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions on the matters discussed in this report, please contact me at (202) 512-3604 or [farrellb@gao.gov](mailto:farrellb@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions are listed in Appendix II.



Brenda S. Farrell  
Director  
Defense Capabilities and Management



George Scott  
Director  
Education, Workforce, and Income Security

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Committee on Appropriations  
House of Representatives

**Scope and Methodology**

To determine the trends in reserve compensation, we obtained and analyzed the following.

- We obtained budgetary data from the Army National Guard, Army Reserves, Air National Guard, Air Force Reserve, Marine Corps Reserve, and Navy Reserve's Military Personnel Budget Justification books to assign costs to the various types of pay and benefits of the reserve compensation system. This included compiling data for fiscal years 2001 through 2007 and assigning costs to the various types of pay and benefits of the reserve components. We selected fiscal years 2001 through 2007, the most recent years for which data were available at the time we conducted our work, to build on our prior work on reserve compensation, which captured data from fiscal years 2000 through 2006.
- We obtained cost and budgetary data from other federal and DOD sources on associated costs that are not included in the budget justification books to estimate the total cost to the federal government. For example, the Office of Health Affairs provided per capita TRICARE health cost estimates for full-time administration and support personnel for fiscal years 2001 through 2007, and cost estimates for TRICARE Reserve Select (TRS) for fiscal years 2005 through 2007.<sup>37, 38</sup> To estimate future health costs for the current reserve population when they retire, we used official estimates of health care costs for servicemembers older than 65 (Medicare eligible) and younger than 65 (non-Medicare eligible). DOD's Office of the Actuary provided the per capita normal costs for postretirement medical benefits; that is, the present value of the current year's attributed portion of future benefits for active personnel and their eligible dependents. The per capita normal costs for 2001 and 2002 were provided by DOD's Office of the Actuary based on data from a report prepared by Milliman USA Consultants and Actuaries,<sup>39</sup> the per capita normal costs for 2003 and 2004 were based on data from Milliman's spreadsheets,<sup>40</sup> and the 2005 through 2007 per capita normal costs were provided by the DOD Office of the Actuary.
- We obtained data from the Office of the Actuary's Valuation Reports from fiscal years 2001 through 2007 to calculate the Department of the Treasury's contribution to disability compensation accruals. We also estimated total federal tax expenditures that resulted from tax-exempt housing and subsistence allowances received by military personnel from fiscal years 2001 through 2007. To do this, we used tax expenditure data from fiscal years 2001 through 2006 from our previous work on reserve compensation to calculate the average ratio of tax expenditure costs to full-time cash compensation. We then applied that ratio to the

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<sup>37</sup>Tricare Reserve Select was established by the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 701 (2004).

<sup>38</sup>Tricare Management Activity provided us with TRICARE per capita health care costs for full-time reservists based on a revised methodology which differs from the approach that served as the basis for this information in our prior work. Therefore, some costs reported in this analysis may differ from those presented in our prior work.

<sup>39</sup>Milliman USA Consultants and Actuaries, *Analysis of the U.S. Military's Projected Retiree Medical Liabilities as of September 30, 2000* (Vienna, Va.: February 2002), and *Analysis of the U.S. Military's Projected Retiree Medical Liabilities as of September 30, 2001* (Vienna, Va.: January 2003).

<sup>40</sup>Milliman USA Consultants and Actuaries, *Analysis of the U.S. Military's Projected Retiree Medical Liabilities as of September 30, 2000* (Vienna, Va.: Mar. 21, 2002), and *Analysis of the U.S. Military's Projected Retiree Medical Liabilities as of September 30, 2001* (Vienna, Va.: Jan. 21, 2003).

## Appendix I

fiscal year 2007 full-time cash compensation to estimate the tax expenditure cost in fiscal year 2007.<sup>41</sup>

When calculating aggregate costs for the various types of compensation, we did the following:

- We used military personnel deflators<sup>42</sup> from the National Defense Budget Estimates for fiscal year 2009 published by the Office of the Under Secretary of Defense (Comptroller) to adjust the budget appropriations into constant fiscal year 2009 dollars.
- We used the 2009 Gross Domestic Product price index from the Bureau of Economic Analysis to adjust federal tax expenditures that resulted from tax-exempt housing and subsistence allowances received by military personnel into fiscal year 2009 dollars.
- We classified the types of compensation into three categories: cash, noncash, and deferred. In addition, we classified the reserve service population into two categories: full-time and part-time. Our analysis produced aggregate costs for each category of the population. To estimate the aggregate cost of compensation items provided or available to us as per capita rates, we multiplied these costs by the average strength of the appropriate population, full- or part-time reservists, identified in the military personnel budget justification books for the appropriate fiscal year.
- We used DOD data to produce per capita costs for each category of the population. For the full-time per capita cost, we used the average strength identified in the military personnel budget justification books for the administration and support population as the denominator. The average strength of pay groups A (reservists assigned to units), B (reservists designated as Individual Mobilization Augmentees), and F and P (reservists completing initial entry training), located in the military personnel budget justification books, as adjusted by subtracting the average number of mobilized Select Reservists from each fiscal year to approximate the actual number of part-time drilling or “active” reservists. This “normalized” strength was used as the denominator for the part-time per capita cost. The Office of the Secretary of Defense for Reserve Affairs provided assistance with querying the Contingency Tracking System managed by DOD’s Defense Manpower Data Center to identify the monthly number of reservists serving on active duty orders for named contingencies by reserve component.<sup>43</sup>

In order to calculate per capita compensation for part-time reservists, we divided total spending on part-time compensation by a normalized strength denominator. This denominator was calculated for each fiscal year by subtracting the average number of mobilizations from the average strength of pay groups A, B, F, and P. Mobilization data reported by DOD may include some non part-time and non-Selected Reserve personnel, which would mean that the actual normalized strength would be slightly higher than our

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<sup>41</sup>GAO, *Military Personnel: DOD Needs to Establish a Strategy and Improve Transparency over Reserve and National Guard Compensation to Manage Significant Growth in Cost*, [GAO-07-828](#) (Washington, D.C.: June 20, 2007).

<sup>42</sup>A deflator is a price index that can be used to find the real value of some monetary magnitude by converting it into constant dollars and can be used as a measure of the change in price.

<sup>43</sup>The Defense Manpower Data Center provided us with more accurate mobilization data, which differs from the information used in our prior work. Therefore, some costs reported in this analysis may differ from those presented in our prior work.

## Appendix I

calculations, resulting in lower per capita compensation rates. In order to assess the impact of the possible inclusion of these individuals on per capita compensation estimates for part-time reservists, we adjusted our normalized strength calculation to reflect a conservative estimate that 15 of reported mobilizations were for non part-time and non-Selected Reserve personnel, based on information provided by DOD. After recalculating per capita compensation based on an adjusted normalized strength, we found that compensation may be an average of \$515 across the fiscal years studied less per annum on a per capita basis than the stated estimate above.

To ensure that the cost data we used to support this report were sufficiently reliable for our analyses, we interviewed agency officials knowledgeable about the data sets and reviewed related documentation. To assess the reliability of Contingency Tracking System data, we interviewed knowledgeable officials about the system and related internal controls, and we reviewed our prior work on the reliability of Contingency Tracking System data. In our previous work, we noted that the portion of reserve deferred compensation associated with most veterans' programs, such as health care, home loans, life insurance, burial benefits, and dependents' and survivors' benefits, could not be identified, and therefore, we excluded these costs. In addition, we excluded all installation-based noncash benefits (such as commissaries and morale, welfare, and recreation centers) since the majority of these benefits are primarily used by the active duty population. As a result, our compensation costs for reserve personnel are likely understated. We determined that all the data sets that we used were sufficiently reliable for the purposes of our analyses.

To identify the progress that DOD and VA have made in assessing the merits and feasibility of transferring the administration for existing educational benefits from DOD and VA, we conducted interviews with DOD and VA officials and obtained and analyzed documents to determine the actions that these agencies have taken to assess the impact of a transfer. In addition, we met with officials and examined documents from DOD and VA to discuss how the transfer of administration would affect budgetary and funding issues for existing reserve benefit programs.

To determine the progress that DOD and VA have made to prepare for the implementation of the Post 9-11 VEAA, we interviewed officials from DOD and VA to determine what actions have been taken to facilitate the implementation of the Post 9-11 VEAA. We reviewed VA's published regulation for guiding the implementation of the Post 9-11 VEAA. We also reviewed documents from DOD on planned initiatives and proposed legislation associated with the implementation of the Post 9-11 VEAA.

We conducted this performance audit from September 2008 through June 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Appendix II

### **GAO Contact and Staff Acknowledgments**

#### **GAO Contact**

Brenda S. Farrell, (202) 512-3604 or farrellb@gao.gov

George Scott, (202) 512-5932 or scottg@gao.gov

#### **Acknowledgments**

In addition to the individuals named above, Elizabeth McNally, Assistant Director, DCM; Patrick DiBattista, Assistant Director, EWIS; Tracy Burney; Tim Carr; Grace Coleman; Pawnee A. Davis; Nicole Harms; Charles Perdue; Terry Richardson; Adam Smith; and John Van Schaik made key contributions to this report.

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